Scheer Partners
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Market Report PA

# Demand for Scientific Space Accounted for in Previous Transactions

*Lack of future growth prospects limits construction upside as companies are favoring incubators, expanding in-place, or going virtual*

By **Devin Zitelman,** Director, Scientific Real Estate Advisory Services / Scheer Partners
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## KEY TAKEAWAYS

**1. Incubators Lead**

Incubators offer an attractive, flexible, option for scientific companies to expand while controlling costs. Despite the premium paid versus more traditional real estate options, many Philadelphia-based companies continue to rely on these spaces as they increase headcount.

**2. Fundamentals Benefit Tenants**

Supply and demand fundamentals are unbalanced with additional supply coming in the form of new construction deliveries, and subleases, leading to an increase in available options for tenants to select from.

**3. VC's Haven't Planted a Flag**

Venture firms are deploying "smart" capital for companies that show promising technology and data coming from clinical trials. However, there is a lack of geographic focus on Philadelphia that will inhibit future growth.

**4. Lacks Growth Prospects**

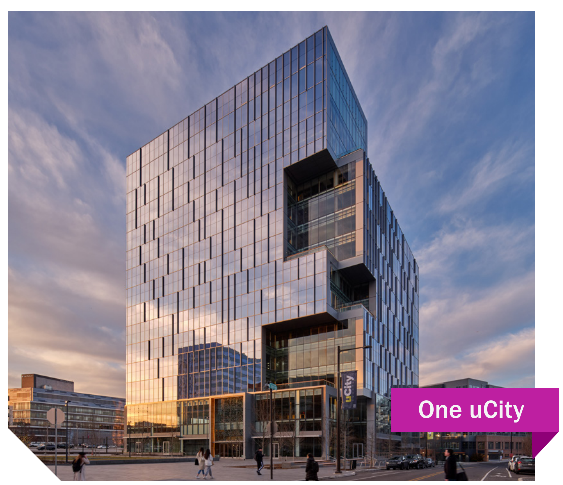
Companies are limiting their real estate footprints in favor of incubators, expanding in place, or going virtual. Those well-positioned for growth are reluctant to relocate due to their investments in existing functional space, mitigating future demand.

**5. Boom on Pause**

Philadelphia's life science real estate market is still unproven and in the early stages of growth that will need time to rebalance given the delivery of new space options. Many higher education institutions have already announced plans or leased lab space in Center City, UCity, and Pennovation.

**MARKET SNAPSHOT**

- ▲ AVAILABILITY
- ▲ RENTAL RATES
- ▼ ABSORPTION
- ▬ CONSTRUCTION DELIVERIES




UPenn leased 115K SF at One uCity Square in 2023, home to their multi-disciplinary research labs, including Penn Medicine's Institute for RNA Innovation, which has been a catalyst for the city's life science sector.

## FORECAST

The deal structures for investment in life science companies are expected to become more unconventional in the form of increased mergers and acquisitions rather than seed and early-stage funding. There is likely to be even more consolidation in the marketplace as cost saving strategies result in layoffs and a need for less lab space. More companies will shutter their existing facilities, and go virtual, a combination of remote work and outsourcing research and development/manufacturing to contract organizations. Subleases, partially or fully built out, will present a potential for lower rental rates if companies executed their lease when market rents were lower than today's market, or are willing to subsidize their rents, writing it off as sunk operating costs.

| Existing Inventory (SF) | Under Construction (SF) | Proposed (SF) | Availability Rate (%) | Avg. Asking Rents ($) |
|---|---|---|---|---|
| **8,865,871** | **1,044,494** | **3,539,712** | **6.61%** | **53.47** |

Philadelphia's reputation as a top ten life science cluster is secure, given drivers such as UPenn and Children's Hospital of Philadelphia (CHOP), and in terms of talent, intellectual property, and technology. New company formation will be interesting to track this year as venture investment will be highly strategic and focused on cutting edge technologies in areas such as cell and gene therapy and RNA. The city's life science real estate market has a significant pipeline of speculative construction projects for functional lab and research space, despite the lack of future growth prospects curbing demand. The lab availability rate in downtown Philadelphia hit 13.03%, compared to a market average of 6.61% (which includes the suburbs), and is expected to rise with the delivery of new life science buildings. There are a variety of lab options ranging from incubators to spec suites to subleases. It's good to be a tenant looking to lease space for the first time in Pennsylvania as owners and sublessors compete for limited demand.

While historic leasing activity over the past several years has averaged about 400K SF, 2023 saw a -60.4% decline totaling 158,313 SF as supply and demand fundamentals are hitting a period of imbalance. Despite their premiums, incubators have run away with deal activity, accounting for more than 50% in 2023, and make for an attractive investment for companies deciding to take advantage of existing lab space and flexible lease terms, rather than build it.

While Philadelphia dusts off its legacy as a center for pharmaceutical manufacturing, taking on a fresh identity as a precision medicine hub, it's fair to wonder how increasing rental rates for new construction will impact scientific companies' choices for space. Promising companies that have struggled to raise capital are becoming more receptive to current market evaluations amidst a slowdown in venture capital funding. The resulting uptick in investment activity relative to 2023 would traditionally lead to a surge in demand for research and development space. However, as companies are favoring incubators, expanding in place, or going virtual by using contract organizations to support their growth, maintain flexibility, and control costs, we anticipate that future demand for scientific space is already accounted for in previous transactions.


BioLabs' Philadelphia location at the Curtis Building is a state-of-the-art laboratory facility featuring bright lab and office spaces ranging from a single bench to larger graduate suites enabling companies to grow in place.

Companies that received recent funding rounds (2020-2023) have been burning capital as they move through clinical trials with real estate taking a backseat. Boards increasingly consider real estate as an essential part of the business strategy including plans to consolidate, leverage incubators' flexibility and shared equipment, or utilize virtual and contract research resources to mitigate the need for physical space, altogether. Many of these companies built their own spaces which fueled developers to continue speculatively building lab space. Now the market, which has traditionally relied on systematic growth from incubators to graduation lab space, must account for an uptick in supply via new deliveries and subleases.

## DEVELOPMENT PIPELINE

Property Address
**3151 Market St.**

Submarket
**University City**

Square Feet
**478,800**

Building Status
**Under Construction**

Expected Delivery
**2024**

Owner
**Brandywine**

Property Address
**2300 Market St.**

Submarket
**Center City**

Square Feet
**220,000**

Building Status
**Under Construction**

Expected Delivery
**2024**

Owner
**Breakthrough Properties, Tishman Speyer**

Property Address
**3201 Cuthbert St.**

Submarket
**University City**

Square Feet
**519,647**

Building Status
**Under Construction**

Expected Delivery
**2024**

Owner
**Gattuso Development Partners, Vigilant Holdings of New York**

## FUNDING

**KOKO Medical Inc.**
Series B
$6mm

**Avstera Therapeutics**
Early Stage
$5mm

**Epi Vario**
Late Stage
Not Disclosed

**Mineralys Therapeutics**
Private Placement
$120mm
expected*

## NOTABLE LEASE TRANSACTIONS

Property Address
**400 Devon Park Drive**

Submarket
**King of Prussia**

Tenant Name
**DSM Biomedical**

Square Feet
**76,793**

Deal Type
**Direct New**

Property Address
**727 Norristown Road**

Submarket
**Horsham/Springhouse**

Tenant Name
**Code Bio**

Square Feet
**25,600**

Deal Type
**Direct New**

Property Address
**Center for Diagnostic Discovery**
**206 Welsh Road**

Submarket
**Horsham/Springhouse**

Tenant Name
**Avantia Labs**

Square Feet
**2,403**

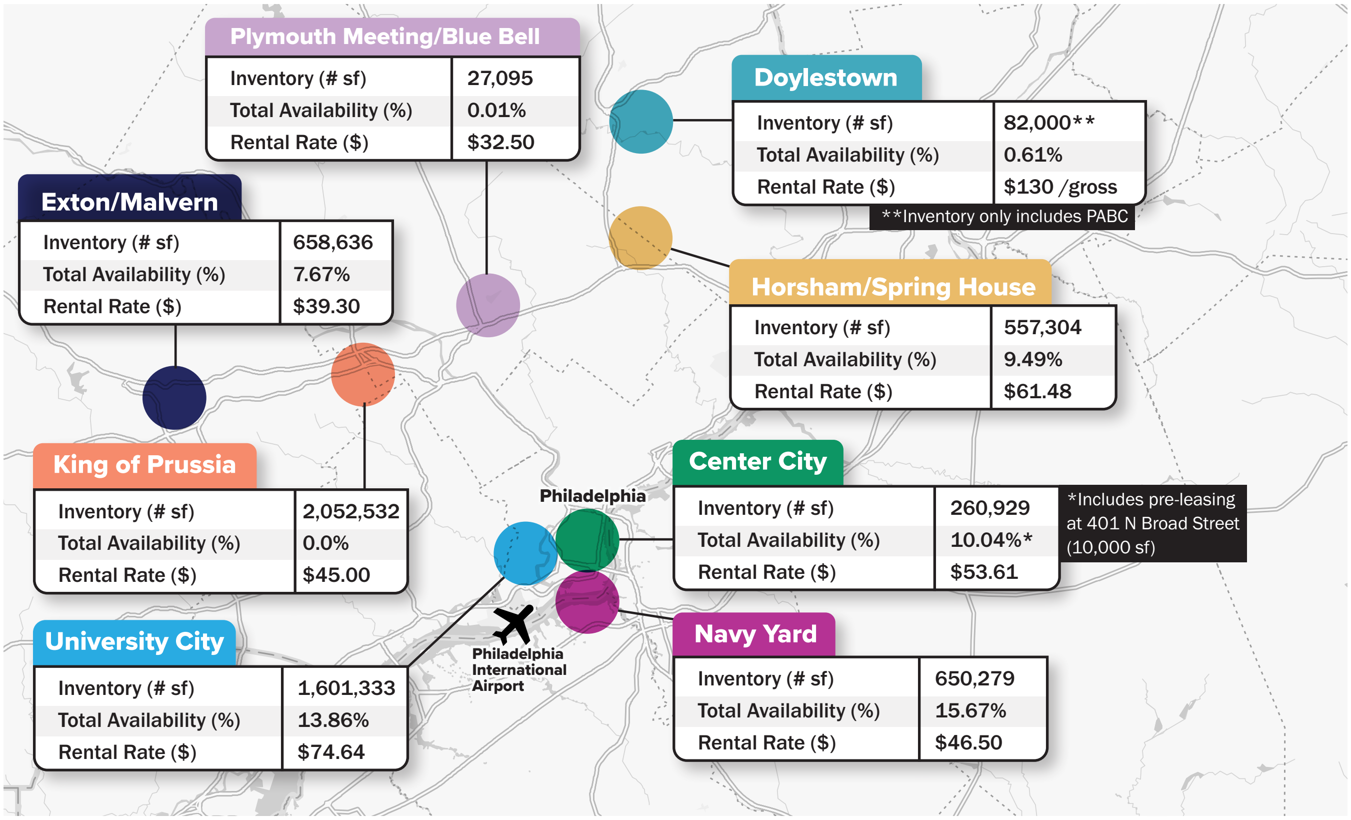
Deal Type
**Direct New**

## MERGERS & ACQUISITIONS

ScoutBio™
**by Ceva Sante**

PARATEK®
**acquired by Gurnet Point Capital /Novo Holdings**

## SUBMARKET MAP




**Plymouth Meeting/Blue Bell**

| | |
|---|---|
| Inventory (# sf) | 27,095 |
| Total Availability (%) | 0.01% |
| Rental Rate ($) | $32.50 |

**Doylestown**

| | |
|---|---|
| Inventory (# sf) | 82,000** |
| Total Availability (%) | 0.61% |
| Rental Rate ($) | $130 /gross |

**Exton/Malvern**

| | |
|---|---|
| Inventory (# sf) | 658,636 |
| Total Availability (%) | 7.67% |
| Rental Rate ($) | $39.30 |

**Horsham/Spring House**

| | |
|---|---|
| Inventory (# sf) | 557,304 |
| Total Availability (%) | 9.49% |
| Rental Rate ($) | $61.48 |

**King of Prussia**

| | |
|---|---|
| Inventory (# sf) | 2,052,532 |
| Total Availability (%) | 0.0% |
| Rental Rate ($) | $45.00 |

**Center City**

| | |
|---|---|
| Inventory (# sf) | 260,929 |
| Total Availability (%) | 10.04%* |
| Rental Rate ($) | $53.61 |

**University City**

| | |
|---|---|
| Inventory (# sf) | 1,601,333 |
| Total Availability (%) | 13.86% |
| Rental Rate ($) | $74.64 |

**Navy Yard**

| | |
|---|---|
| Inventory (# sf) | 650,279 |
| Total Availability (%) | 15.67% |
| Rental Rate ($) | $46.50 |

The Philadelphia lab market's future growth is constrained by a preference for incubators, onsite expansion, and virtual alternatives, which is impacting the potential for continued development of speculative lab. Demand for scientific space has seemingly been satisfied through previous transactions and suggests a limited upside for new life science construction projects. With nearly 1.2 million SF planned for delivery in 2024, coupled with an abudance of available space options, now is a great time to be a tenant.

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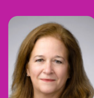

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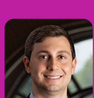

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